Forestry Innovation Investment Ltd.
Annual Service Plan Report
2006/07

Forestry Innovation Investment

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Forestry Innovation Investment

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Message from the Chair to the Minister of Forests and Range

01 June, 2007

The Honourable Rich Coleman
Minister of Forests and Range and Minister Responsible for Housing
Province of British Columbia

Dear Minister:

Nearly 80% of the timber harvested in B.C. is processed in a sawmill, and in 2006 some 80% of the resulting lumber was exported. Customers in the United States accounted for over 84% of the export sales, driven primarily by housing construction and renovation. Customers in Japan accounted for a further 10%, meaning that the B.C. forest sector is overwhelmingly dependent on sales to two countries.

In 2006 the B.C. lumber sector experienced a very difficult year because of a dramatic decline in housing starts in the U.S. Although that was somewhat offset by a moderate increase in revenues to the pulp sector, on balance the industry's experience reinforced the imperative to protect market share in the U.S. and Japan, and diversify beyond those historical markets. FII's mandate is to do precisely that, and I am pleased to outline some of the company's highlights in pursuit of that on-going goal.

Softwood lumber remains B.C.'s strong suit, and no one would argue that the U.S. will remain our most important market by far, regardless of whether housing starts are up or down. Thanks to abundant forest resources, North Americans are certain to continue using wood frame technology to build the vast majority of new homes, technology that is affordable, energy efficient over time, and more environmentally friendly than any competing building system. But relative to the total value of new construction, non-residential structures in the United States use only one-seventh as much structural wood as do residential structures.

In a world that is dramatically more attuned to climate change and greenhouse gas emissions, it makes sense to move away from concrete and steel, in favour or wood framing for low-rise commercial, recreational and institutional buildings. I am pleased to say that FII and the trade associations it funds have initiated a program to make architects, developers, and building owners aware of the many benefits of using wood instead of concrete and steel. We are optimistic that they can be convinced to turn to structural lumber and panels as a major element of building in a more environmentally friendly way.

In the context of whether or not B.C. wood products come from well managed forests, FII surveys in 2006/07 showed that 93% of our international customers felt that choosing wood products from B.C. was indeed a good choice for the environment. In no small part this sentiment can be traced to the proactive communications that FII staff have developed and delivered over the past four years.

Our messaging, however, is quickly evolving to reflect the fact that the "green building" movement is gaining momentum, expanding beyond the commercial and institutional building sector, and into the realm of residential

construction. FII and its partners have begun to actively promote the messaging, the science, and the analytical tools surrounding the fact that building with wood is good for the environment.

As mentioned above, Japan is B.C.'s second largest market for softwood lumber, and indeed for all solid wood products. I am pleased to say that we appear to have turned a corner in terms of regaining market share in the all-important post-and-beam housing sector. Thanks in part to earlier research and development funding by FII, B.C. suppliers were successful in securing Japanese government approval of a new line of kiln-dried hemlock lumber. It is being introduced to Japanese customers at the same time that European suppliers of laminated lumber are backing away from Japan because of higher ocean freight rates, tighter log supplies in Europe, and higher lumber prices in Europe and the Middle East.

After two years of FII's presence in China, we are more optimistic than ever that we will be able to create a large market for B.C. lumber in that country. FII's research has documented the important characteristics of housing programs in China, where over 10 million new starts occur each year. Research shows that only a couple of hundred are wood frame. Virtually every new home is made of concrete, brick, or steel, largely because China depleted its forest resources many decades ago, and was closed to imports for much of the intervening period.

The role of FII's subsidiary company in China is to undertake basic market research and to lead with real-world demonstration projects to make architects, designers, builders and government officials aware of our wood frame technology. Technical expertise is provided by the Canada Wood Group, which is a federation of five B.C. industry trade associations and one from Quebec. Funded mostly by Natural Resources Canada and FII, the Canada Wood Group experts are in the lead with creating Chinese building codes and fire codes that will accommodate North American wood frame systems, and by extension, B.C. lumber species, dimensions and grades.

In 2006/07 FII completed construction of two large single-family villas next door to our Dream Home Canada Demonstration Centre in Shanghai. The Centre and the villas continue to draw interest from across the country. In recent months we learned, for example, that Chinese developers were in the process of replicating our Demonstration Centre building elsewhere in Shanghai and in the city of Changsha.

Chinese municipalities have launched massive programs to repair and improve tens of thousands of old apartment blocks. Until now, all of that work has been based on using light steel. Our most significant near-term objective in China is to introduce North American wood truss technology and B.C. wood products to demonstrate that the wood-based approach is faster, cheaper, more energy efficient over time, and friendlier to the environment.

In 2006/07, FII worked with a developer and regulatory officials in Shanghai to complete three apartment re-roofing projects using wood truss technology for the first time. We also partnered with the Quebec Wood Export Bureau to do similar work on eight apartment blocks in Qingdao. Developers and municipal officials are enthusiastic about adopting this approach and we believe we are on the verge of seeing significant commercial uptake in Shanghai. In terms of expanding to other parts of the country, municipal engineering department officials from Chongqing have asked FII staff to help them incorporate the wood truss option in designing their re-roofing program, and we expect similar uptake from many other cities.

Message from the Chair to the Minister of Forests and Range

In Beijing we are building on our initial re-roofing success by working with Chinese experts to design not only a wood truss roofing solution, but also the addition of one wood-frame storey to existing apartment buildings. If building codes and fire codes are ultimately accepting of this housing solution, the extra living space could be sold to cover the cost of the entire project, a prospect that is very attractive to municipal budget managers.

The market for lumber in landscaping projects in China is growing exponentially across the country. In 2006/07 FII secured a Memorandum of Understanding with the southern city of Guangzhou for a large municipal landscape project to be known as the Guangdong – British Columbia Pacific Gateway Park. FII will provide technical design and construction assistance, as well as appropriate cedar and pressure-treated lumber to demonstrate the merits of B.C. products.

In Seoul, South Korea, FII is pleased to have joined with Natural Resources Canada to share the majority of the cost of opening a private-sector Canada Wood Group office to introduce the same technology and products as we are introducing to China. In light of Korea's 450,000 new housing starts each year, and its cultural affinity for wood frame housing, the public- and private-sector partners in Korea are aiming to increase wood frame housing starts to 15,000 units annually by 2012.

In Indonesia, FII initiated and managed the provision of 10 demonstration houses in 2005/06 to introduce our building products and wood frame technology. Flowing from that work with the agencies responsible for rebuilding after the tsunami, I am pleased to confirm that two firms in B.C. secured contracts in mid-2006 for a total of nearly 600 houses. Those structures were nearly completed by the end of 2006/07.

FII is building on the Indonesia experience to see if it can help solve a major housing problem faced by the Government of Mongolia. An on-going drought and particularly severe winters have driven a half million Mongolians to abandon their traditional nomadic herding lifestyle, and migrate to the capital city of Ulaan Baatar. They have settled in unplanned temporary shelters around the city, and the government wants to provide them with proper wood frame housing in rationalized communities. The government has been looking to B.C. for help.

With funding from FII, the B.C. Institute of Technology is assisting Mongolia with its adoption of the Canadian wood frame building code. At the same time, FII is organizing the provision of two demonstration houses to demonstrate their energy efficiency and other features, as well as test their cultural acceptability. Although the market for B.C. wood products will never be very significant in Mongolia, this is a good opportunity to promote B.C. as the source of housing solutions, not just lumber. If FII is successful in Mongolia, the experience may prove helpful in eventually promoting low-cost housing in rural China.

Closer to home, the Mountain Pine Beetle epidemic continues to sweep across the central and southern Interior, with the volume of dead timber continuing to rise. 2006/07 marked the second year of an FII program dedicated to better understanding the characteristics of that timber, and finding appropriate markets for products made from it. In concert with faculty at the University of B.C., FII undertook the first structured study of mill recovery from trees that had been dead for five to seven years, the results of which were welcomed by a host of people who need to know what lies ahead when the sawmill and pulp industries will have to rely heavily on such timber. Industry advisors strongly encouraged FII to undertake more such studies, which it will in 2007/08.

Also at home, FII successfully enabled the City of Richmond to choose a unique all-wood roof system for the new speed skating oval for the 2010 Olympic and Paralympic Winter Games. Using over one million board feet of spruce-pine-fir lumber, and 19,000 sheets of plywood, the roof will span 6.5 acres in a design that has never been done before. Along with the expanded Vancouver Convention Centre and other major 2010 Games venues, the oval will showcase innovative technology and B.C. wood products to innumerable television audiences and visitors to the province.

From a fiscal perspective, FII and its funding recipients spent some $3 million less than was available in total from the Ministry. This was primarily due to a delay in implementing the non-residential promotion program in the United States, cancellation of several market communications projects, a delay in certain activities in China, and some funding recipients not having sufficient internal capacity to deliver all they had planned.

In 2007/08 FII will introduce a new program to stimulate the manufacture and marketing of value-added wood products. This will be accomplished by returning the market communications program to its historic level, and reducing the scale of FII's direct-delivery activities in the market development programs. Funding to other organizations in those programs will remain virtually unchanged, and will be augmented by $1 million for the value-added program.

Whatever FII's accomplishments may be in a given year, the most significant feature of its business is the strong collaboration that exists among FII, the federal government through its Canada Wood Export Program, the B.C. industry, national research institutes, and B.C. universities. While some objectives are unique to each participant, they all bring their unique strengths to bear in pursuing goals that reflect a shared desire for a robust, more competitive forest sector.

The downside to this collaboration is that FII is continuously exposed to the risk of those other organizations being unable or unwilling to continue with the partnership. FII mitigates this risk by actively consulting with leaders across the forest sector to make sure its priorities and strategies are well supported. FII staff also strive to ensure that their dialogue with each partner is fulsome and transparent.

In the context of risk management more generally, I am pleased to say that the company has created a comprehensive listing of all significant risks, and measures to mitigate them. Perhaps the greatest risk is the exposure to staff turnover, reflecting the fact that FII is a very small organization in which each position is unique. There are no redundancies, and therefore little room for anyone to advance within the company. Despite proactive efforts to ensure every employee can experience a wide range of activities and learn about matters beyond his or her normal scope, the organization is certain to suffer temporary setbacks with the occasional departure of employees who have outgrown their positions.

The 2006/07 Forestry Innovation Investment Ltd. Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report, including what has been included in the report and how it has been reported.

Message from the Chair to the Minister of Forests and Range

The information presented has been prepared in accordance with the B.C. Reporting Principles and reflects the actual performance of FII for the 12 months ended March 31, 2007 in relation to the January 2006 service plan. The measures presented are consistent with FII's mission, goals and objectives for 2006/07, and focus on aspects critical to the organization's performance.

I am responsible for ensuring internal controls are in place to ensure performance information is measured accurately and in a timely fashion.

All significant decisions, events and identified risks, as of March 31, 2007 have been considered in preparing the report. The report contains estimates and interpretive information that represent the best judgment of management. Any changes in mandate direction, goals, objectives, strategies, measures or targets made since the January 2006 service plan was released and any significant limitations in the reliability of the data are identified in the report.

Doug Konkin
Board Chair

It is difficult to over-state the importance of the Province's forests to British Columbia's history, society and economy. About two thirds of the B.C. land base is forest. By law, these forests must be managed on a sustainable basis to provide current and future generations with continuous economic, social, recreational, and environmental benefits.

In fact, British Columbia is a leader in forest practices. The province has more forest lands certified to independent third party standards than any country in the world, with the exception of Canada as a whole. Less than 1% of the province's forests are harvested annually and 14% of the province is fully protected.

Even at this sustainable level, the forest industry is an economic engine that generates $15 billion in business activity every year and employs an estimated 90,000 British Columbians. Including secondary indirect and induced employment of about 130,000 workers, the forest sector accounts for approximately 1 in every 14 jobs in the province. B.C.'s forests, in economic terms, reach into every community across the province. Maintaining the prosperity of the forest economy is a cornerstone of provincial economic policy.

The province's forest economy is driven, in large part, by maintaining the industry's competitiveness on world markets. More than 80 % of B.C. forest products are sold to international customers. As exports go, so goes the forest economy.

Reflecting the fundamental importance of the forest sector to British Columbia, Forestry Innovation Investment Ltd. (FII) was established in 2003 as a Crown agency with a mandate to promote B.C. forest practices and products internationally.

Global markets for B.C. wood products in 2006

The global demand for softwood/sawn wood products declined marginally by 0.5% in 2006 to 311 million m^3. International demand is expected to rebound in 2007 due to continuing growth in the global economy. Canada continues to be the dominant supplier of softwood lumber to world markets while the U.S. and Japan are the major importers.

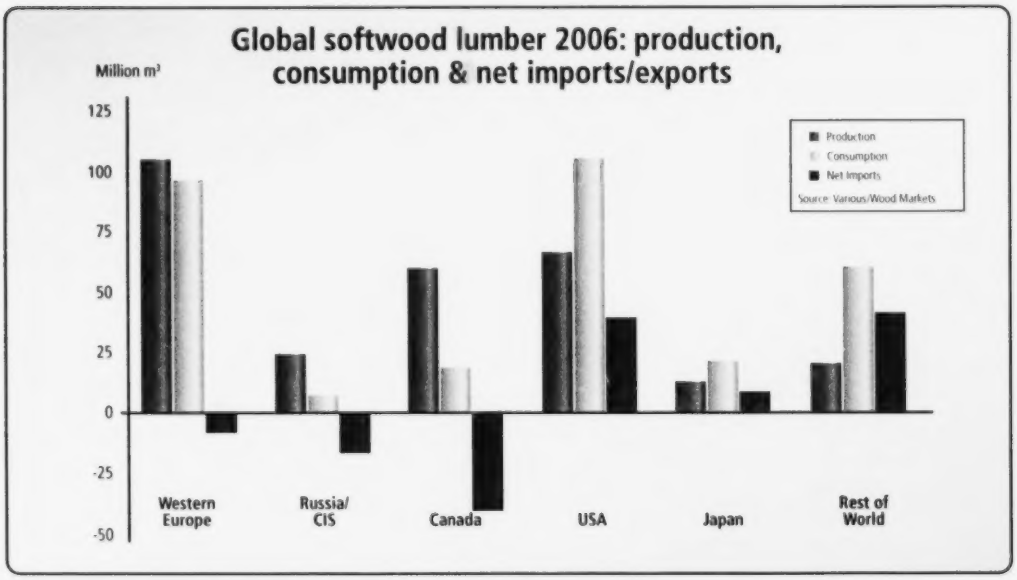
B.C. is the source of 53% of Canada's softwood product exports - including softwood lumber, softwood plywood, OSB, MDF and particleboard. Of the softwood lumber category B.C. is the source for 58% share of Canadian exports.

In terms of B.C.'s three major markets in 2006:

- **United States:** U.S. demand dropped 4.7% driven by a slowing domestic housing market. The U.S. was the main downward influence on global demand in 2006. B.C. increased its softwood lumber market share of U.S. imports to 51.4% in 2006, from 49.2% a year ago, with the Europeans and other global suppliers retreating from the U.S. market. Across all softwood categories, B.C. market share increased to 44.3% of imports from 42.8% a year earlier. Due to declining demand, however, sales volume decreased to 30.3 million m^3 from 31 million m^3 in 2005. Declining demand in the U.S. also brought a major drop in lumber and panel prices, making 2006 a difficult year for virtually all lumber producers in North America.

Overview

- **Japan:** This country is B.C.'s largest market outside of the U.S. Japanese housing starts and wood products demand performed well in 2006, with 2x4 housing starts rising to 105,000 units and surpassing the previous record of 96,000 set in 2005. Similarly, post & beam construction, the largest housing segment in Japan, rose to 433,000 units, the fourth consecutive year of positive growth. B.C. exports of all softwood products were more than 3.6 million m^3 in 2006, for a 39% share of Japan's imports, up from approximately 3.3 million m^3 in 2005 and a 37% share in 2005.
- **China:** Driven by a fast-growing economy, China is now the world's second largest wood importer after the U.S., and the largest importer of logs. By all accounts, 2006 was a good year for the B.C. lumber business in China. Compared to the previous year, overall B.C. softwood lumber sales grew by 19%, to reach a high of 389,870 m^3. B.C.'s share of the total Chinese softwood lumber market grew to 19% from 17% in 2005.
- **Europe:** Europe continues to be an important export market for B.C. Growing consumption in Europe and constrained domestic log supply are increasing the opportunities for imported lumber. In 2006, B.C. lumber sales to Europe were up 16%. EU countries have been at the forefront of promoting third-party certification of sustainable forest management, and the increase in B.C. sales can be at least partly attributed to the fact that most products from B.C. are from certified forests.



B.C. lumber output and markets

In 2006, B.C. lumber production set a record of 17.4 billion board feet. This growth was entirely due to increased production in the interior (partially in response to the Mountain Pine Beetle epidemic). While domestic shipments were up 0.4%, total exports were down 0.2% from 2005. About 80% of production was exported, with B.C. softwood lumber making up 92% of this volume. Five markets - the U.S., Japan and "greater" China (mainland China, Hong Kong and Taiwan) - account for 96.1% of B.C. softwood exports.

Summary of BC commodity wood products - 2006
(x000 m^3)

	Softwood Lumber	Softwood Plywood	OSB	MDF	Particle-board	Total Excl. Logs	% of Exports
Production	41,003	1,795	2,090	265	230	45,382	
Shipments to Canada	8,174	1,329	119	29	12	9,662	
Exports							
US	27,682	425	1,802	214	219	30,342	84.9%
Japan	3,462	34	125	0	0	3,623	10.1%
China	390	2	6	4	0	403	1.1%
Taiwan	253	0	1	4	0	258	0.7%
S. Korea	142	0	34	7	0	183	0.5%
Other Asia	121	0	0	0	0	121	0.3%
Australia	78	0	0	0	0	78	0.2%
New Zealand	21	0	0	0	0	21	0.1%
Europe (EU)	263	3	0	0	0	366	1.0%
Other	316	2	1	6	0	325	0.9%
Total Exports	**32,829**	**466**	**1,971**	**236**	**218**	**35,720**	**100.0%**
% Exports of Production	**80%**	**26%**	**94%**	**89%**	**95%**	**79%**	
% of Tot. BC Exports	**91.9%**	**1.3%**	**5.5%**	**0.7%**	**0.6%**	**100%**	**0%**

(Note: excludes pulp and paper and logs)

B.C.'s solid wood sector and pulp and paper sector together generated $14.06 billion in export revenues for B.C. in 2005. This was more than any other sector of the economy and accounted for about 41% of commodity export revenues for the province.

FII mandate

Forestry Innovation Investment Ltd. (FII) was established in 2003 as a Crow']ency with a mandate in market development and market communication to:

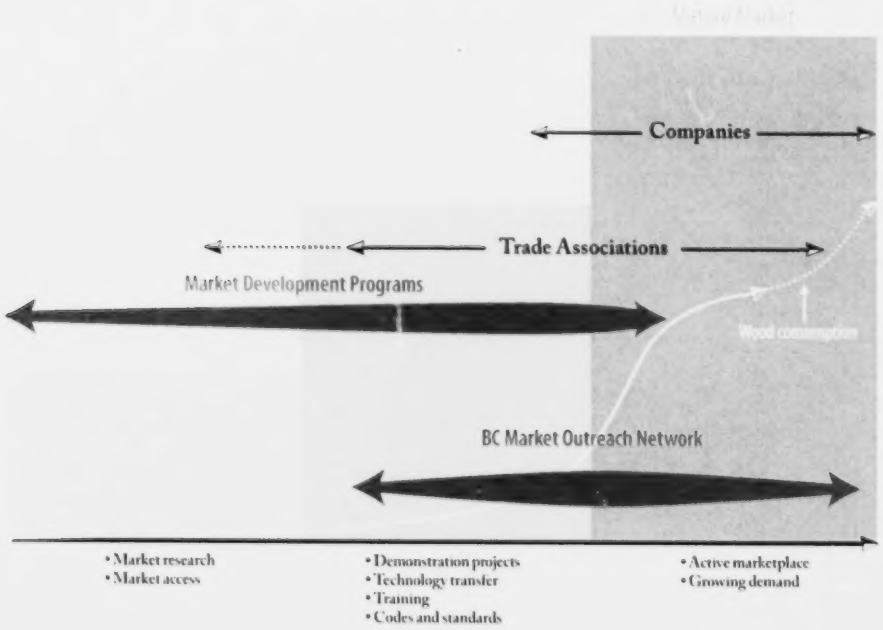
- work with the forest industry to position B.C. as a global leader in sustainable forest management;
- break down trade and market barriers to ensure export opportunities for B.C. wood products;
- maintain, build and diversify market opportunities for B.C.'s forest products; and,
- help ensure the forest sector, through strong international sales, continues to be a leading contributor to the B.C. economy.

In many ways FII acts a catalyst that enables and sustains product development, market access, and marketing initiatives in the forest sector. The focus is on working with industry trade associations, research institutes, and universities, rather than duplicating their efforts. FII shares the cost of these activities, and also directly undertakes work that the industry can't do on its own, or that can be more effectively done by a government agency.

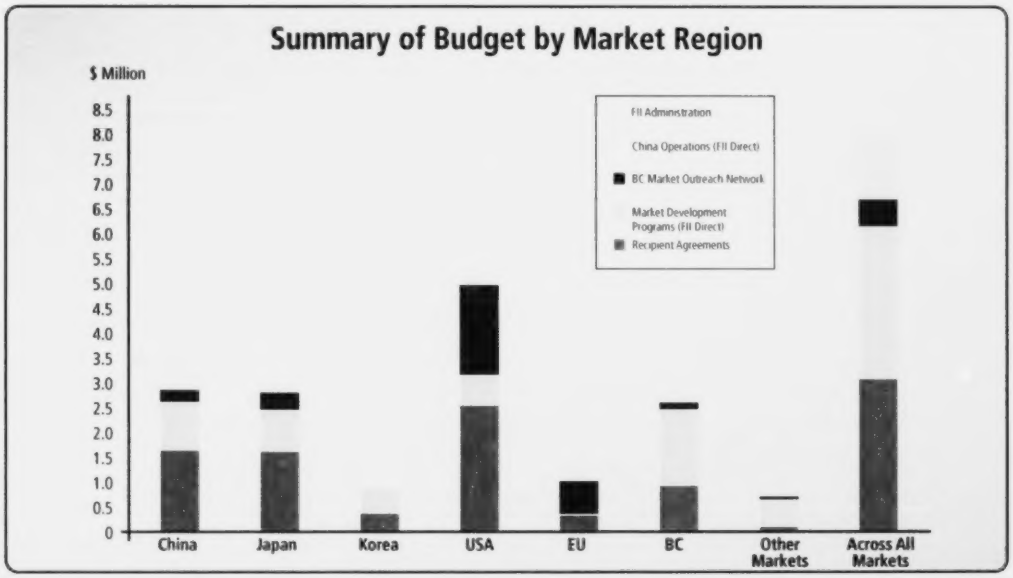
FII's market development activities tend to focus on developing markets, and investing through trade associations in building markets – activities of the greatest added value to the forest economy. FII's market communication activities tend to focus on mature commercial markets because the emphasis is on making existing customers aware of, and comfortable with, B.C.'s leading forest practices.

The following diagram illustrates how FII focuses on areas where no market currently exists for B.C. products, or is only just emerging. Industry trade associations and individual firms focus on more mature markets.

FII business focus



FII's budget reflects this mandate with funds directed to existing major markets in the U.S. and Japan, as well as emerging markets in China and Korea, and various niche markets globally. This is illustrated in the following snapshot of FII's budget allocations in mid-2006.



Vision

- FII is an innovative and collaborative forest marketing support and funding agency that meets the needs of government, the B.C. forest industry, international markets and British Columbians.

Mission

- To support the B.C. forest industry to develop and market forest products for customers around the world.

Values

FII delivers on its vision and mission through direct-delivered activities as well as through partnerships with industry associations, academic institutions and agencies in other levels of government. This role is reflected in the emphasis that FII places on building close working relationships with the sector as well as the fiduciary role of a government agency overseeing the investment of public funds.

- **Focus on partnerships** – FII works in partnership with Canada and industry associations to ensure programs are efficiently delivered in a coordinated manner. FII encourages innovative programs and responses to changing circumstances.

FII mandate

- **Integrity and credibility** – Projects and services are delivered by capable, motivated individuals who focus on ensuring FII programs are credible and useful. FII staff learn from the past and continuously improve the effectiveness and efficiency of FII programs by consulting widely and optimizing the use of resources, based on transparent decision-making and investment processes.
- **A balanced portfolio of investments** – FII seeks an appropriate balance between short-term and longer-term public investments across the range of forest products and markets to optimize the returns to British Columbia.

Key stakeholders and partners

FII's key stakeholders and partners include:

- B.C. forest companies;
- forest industry trade associations;
- academic and research institutions engaged in forest product studies;
- federal government departments such as Natural Resources Canada (Canada Wood Export Program) and Canada's foreign consulates and embassies;
- provincial ministries and agencies; and
- municipal governments in rural B.C.

In 2006/07 FII worked directly with five federal and provincial government agencies in Canada, forest industry trade associations, and four Canadian research and academic institutions. FII Shanghai partners included eight Chinese government agencies, several Canadian consulates and embassies, and numerous B.C. forestry company representatives in China and Canada.

Governance

FII was incorporated on March 31, 2003 under the *Business Corporations Act*. FII operates according to a Shareholder's Letter of Expectations from the Minister of Forests and Range, and a funding agreement with the Ministry of Forests and Range.

FII staff are accountable to a board of directors consisting of:

- Doug Konkin, Deputy Minister of Forests and Range;
- Tamara Vrooman, Deputy Minister of Finance; and,
- Don Fast, Deputy Minister of Economic Development.

The board is responsible for setting FII's strategic direction, approving annual budgets, ensuring fiscal integrity and corporate risk management, sanctioning corporate policies, and generally providing direction to the CEO. The board is supported by an audit committee which reviews, recommends and in some instances, approves financial statements and other financial information. Members of the committee are:

- Tamara Vrooman, Deputy Minister of Finance;
- Doug Callbeck, Assistant Deputy Minister of Management Services, Ministry of Economic Development; and,
- Joan Elangovan, Assistant Deputy Minister of Corporate Services, Ministry of Forests and Range.

Board's governance principles

The board of directors has adopted the guiding principles of the provincial government's Governance Framework that outline the roles and responsibilities of all parties that are part of the Crown corporation governance environment. The principles relate to:

- stewardship, leadership and effective functioning of the board;
- clarity of roles and responsibilities;
- openness, trust and transparency;
- service and corporate citizenship;
- accountability and performance; and,
- value, innovation and continuous improvement.

Governance best practices

The Province's Board Resourcing and Development Office has promulgated guidelines for Crown corporations, which include a comprehensive description of best practices. FII's status in respect of these guidelines is included among corporate reports posted on the company's website: www.bcfii.ca

Governance

Advisory committees

FII is supported by two advisory committees drawn from firms in the forest industry:

- a Strategy Committee of seven senior executives from the Coastal and Interior forest industries, representing primary and secondary manufacturing as well as the remanufacturing sectors. The committee members meet regularly to provide strategic advice to FII on programming, investments and organizational objectives.
- a Market Acceptance Advisory Group contributes advice on how best to ensure that foreign customers are aware of B.C.'s world-class forest management regime.

Information on subsidiary company

FII incorporated a wholly owned subsidiary registered under the laws of the People's Republic of China – FII Consulting (Shanghai) Co., Ltd. in March 2003. The company was required so that FII could carry out the business of promoting wood-frame construction in China. As a wholly foreign-owned enterprise, FII Shanghai is able to use facilities constructed in Shanghai to provide consulting services to FII and others, allowing FII to pursue its marketing and promotional activities in the Chinese market.

The subsidiary's year end is December 31 while FII's year end is March 31. There are also restrictions imposed on the distribution of earnings and other transactions with the foreign subsidiary based on the laws of the People's Republic of China. The subsidiary is entirely funded by the parent company so the yearly transactions of the subsidiary are reflected in the Financial Statements of the parent Company.

FII Shanghai does not have its own board of directors. In accordance with Chinese law, it is led by its Executive Director, who is Ken Baker, CEO of FII.

Corporate locations

FII's corporate office is located at 1200 - 1130 West Pender Street in downtown Vancouver, British Columbia, while the company's subsidiary office is located in Shanghai, China in the Dream Home Canada Demonstration Centre.

Minister responsible

The Minister of Forests and Range is responsible for FII.

Business activities and organizational structure

FII's structure is aligned with its mandate to promote B.C.'s forest practices and products internationally through three business areas:

- Market Development Programs;
- The BC Market Outreach Network; and,
- Corporate Support.

Market Development Business Area

The Market Development Business Area is comprised of six programs:

- International Marketing;
- Market Access;
- Product Development;
- China Market Development;
- Mountain Pine Beetle; and,
- Domestic Market Development.

The programs combine direct-delivered activities, as well as the funding of projects in partnership with the Government of Canada, forest industry associations and research institutions, to:

- generate opportunities for B.C. wood products in existing and emerging markets;
- ensure B.C. forest products have access to markets free from regulatory and other barriers;
- build marketplace awareness about B.C. wood products and the B.C. companies that supply them; and
- support the development of new forest products, including products using Mountain Pine Beetle wood, and the development of new markets, such as wood use in the commercial sector.

International Marketing Program: The program supports the promotion of British Columbia's wood products internationally through:

- international wood product tradeshows;
- technical and promotional seminars and workshops;
- promotional materials, brochures, multi-media tools, and websites;
- running advertising and promotional campaigns; and,
- participating in promotional demonstration projects (Street of Dreams, make-over and do-it-yourself TV programs, etc.).

A key to success in international marketing is market research and market intelligence. With an increasingly competitive and evolving global forest industry, timely market research helps identify new and evolving market opportunities and maintain competitive product advantage. In support of marketing activities, FII conducts ongoing research and monitoring of foreign markets for wood products and shares this information with the sector.

Programs are cost shared with and delivered by the B.C. forest industry and their various trade associations. Research projects tend to be managed directly by FII.

Business activities and organizational structure

Market Access Program: The program responds to market access issues for B.C. forest products around the world, including:

- aligning building or fire codes with Canadian standards;
- ensuring markets recognize B.C. wood species and grades;
- identifying and overcoming non-tariff trade barriers, such as product testing and/or product marking requirements; and,
- addressing phytosanitary regulations and restrictions.

These initiatives are typically delivered jointly on behalf of the B.C. and the Canadian forest industry and coordinated through the Canada Wood Group.

Product Development Program: Ongoing innovation and product development is needed to maintain B.C.'s competitive edge in foreign markets.

Through the Product Development Program, FII supports industry efforts to evolve existing products or to develop new forest products. FII also supports technical research and product testing for market acceptance.

Projects are typically led by industry research institutions or by industry trade associations.

China Market Development Program: China's emerging status as an economic superpower makes it a potentially important market opportunity for B.C. forest products. Along with the United States and Japan – B.C.'s two largest export markets – China is one of the three top-priority markets for FII activities.

Reflecting this priority, FII's market development business area includes a Chinese subsidiary in Shanghai, China with a mandate to build demand for B.C. wood products in that country. Headquartered in the Dream Home Canada Demonstration Centre (DHC), FII Shanghai, the Canadian government, and the private sector are working collaboratively under the "Canada Wood" brand to create opportunities for Canadian and B.C. products in wood frame construction, landscaping, remanufacturing and value-added product sectors.

FII is leading on market research and demonstration projects, while the Canada Wood Group, a consortium of Canadian trade associations, is dealing with building code and fire code initiatives, technology transfer, training, quality assurance and product inquiries.

A key part of FII Shanghai's efforts involves transferring Canadian-developed wood frame technology, and demonstrating the results of Canadian technology through projects that architects, engineers, developers, government officials and consumers can see, touch and otherwise experience. This initiative has led to the construction of wood demonstration structures in Shanghai and Qingdao:

- the 888 square metre (approximately 10,000 square feet) wood-products showcase and demonstration centre,
- two single-family wood-frame homes, known in China as villas; and
- wood-truss roofs assembled atop three old low-rise apartment blocks in Shanghai.
- a cooperative project with QWEB involving design and technology transfer support for wood-truss roof assembled atop low-rise apartment blocks in Qingdao.

The primary near-term objectives are to:

- encourage broad adoption of wood-truss roofs in the refurbishing of tens of thousands of old apartment blocks – a market valued in the hundreds of millions of dollars; and
- introduce wood frame technology for potential use in millions of new low-rise apartment units being built each year.

In the future, commercial partnerships are expected to provide technical demonstration of hybrid construction (wood plus steel or concrete), renovation projects or the construction of multi-storey, multi-family structures. Research and experience in China have confirmed that providing technical demonstration and technical support, combined with showcasing wood and wood-construction technologies, will be key to achieving market development objectives in this market.

Mountain Pine Beetle Program: FII has a lead role in the B.C. government's Mountain Pine Beetle Action Plan with responsibilities for supporting market research, market development, product development, technical and manufacturing research, as well as market communications associated specifically with these topics.

Projects are delivered by forest research institutes, post-secondary institutions and industry trade associations. Given the considerable volume of wood fibre impacted, FII has taken an active role in new market and new product development by working with B.C. forest companies and international wood product purchasers to evaluate future opportunities.

Domestic Development Program: While most of B.C.'s wood products are sold to customers outside Canada, there are still potential growth opportunities within the country.

FII is promoting increased use and showcasing wood products in the Vancouver Convention Centre and 2010 Olympic and Paralympic Winter Games venues. This is part of a strategy to expand the use of structural and appearance-grade wood products in new non-residential buildings throughout North America.

The Convention Centre and 2010 venues provide high-profile opportunities to showcase B.C.'s wood products, species, and innovative applications in B.C. and export markets. Strategies include identifying projects that could use wood instead of competing products, technical support to overcome any technical barriers, and design and engineering support.

FII supports projects that improve manufacturing technology and process engineering and help transfer this technology to the sector within B.C. These projects are typically delivered by forest research institutes, post secondary institutions and trade associations. Some direct investments in projects may be made in order to showcase wood products and address technical constraints to market growth and development.

BC Market Outreach Network Program

Environmental issues are a major priority for Canadians and key markets where B.C. exports its forest products. Customers and regulators who set policies want to ensure that the products they purchase are the right decision for the environment and that means asking the right questions before the product is purchased, such as: does this product come from a legal and sustainable source? Is it a green building product? How does it contribute to combating climate change?

Business activities and organizational structure

The BC Market Outreach Network (BCMON) is an FII program that ensures international markets have answers to these questions. BCMON staff achieve this by:

- providing international buyers and markets with credible facts that B.C. forest products come from well-managed forests;
- countering misleading environmental campaigns designed to undermine the credibility of B.C. forest policies and practices; and,
- monitoring the development of draft legislation and procurement policies that could impair the flow of B.C. forest products into a particular market.

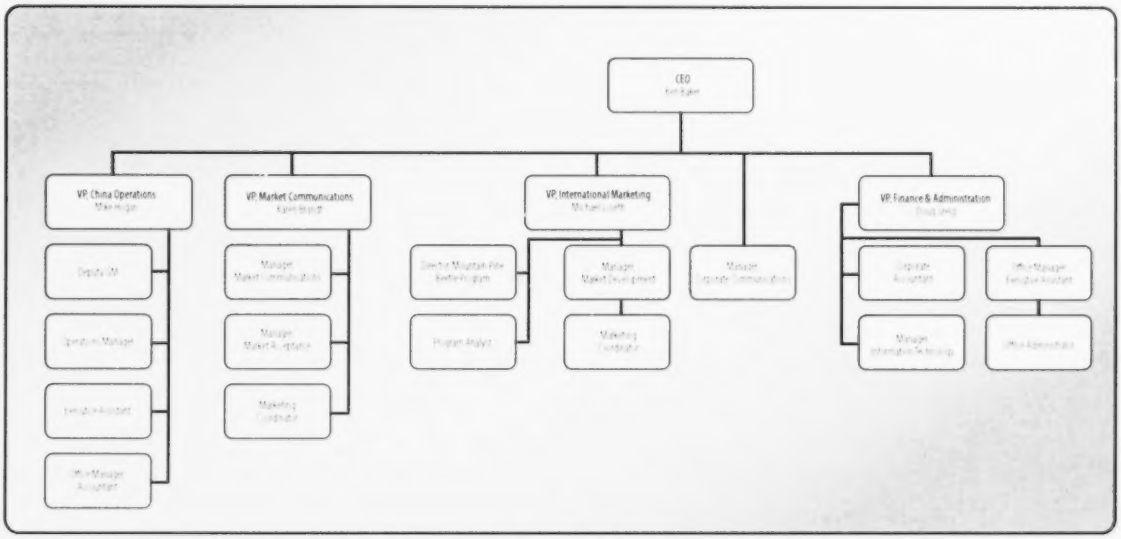
BCMON staff achieve the program goals by:

- working with industry associations, embassies and federal and provincial ministries to ensure a coordinated and strategic approach to market communications;
- gathering market research information about customers' environmental concerns which is used to support activities;
- distributing information materials, including fact sheets and an up-to-date website www.bcforestinformation.com, to respond to market issues and changes in forest policy;
- attending major international trade shows to ensure customers and potential customers have information on B.C.'s forests and environmental performance; and,
- leading the sector in on-going market monitoring to identify emerging issues and recommending and implementing strategic response.

Corporate Support

Corporate Support includes responsibility for the financial management and control of the corporation, information systems, human resources and performance management. Corporate services focus on internal management and employees, as well as serving the board of directors, government and partners by ensuring a high level of performance, accountability and adherence to government policies.

FII carries out its programs and services with 21 employees in B.C. and Shanghai, China as shown in the following chart.



Alignment with Government's Strategic Plan

FII's business plan is aligned with the government's forest policies, economic development initiatives, and strategic direction. Specifically, FII supports two of the priorities listed in the Government's strategic plan.

To lead the way in sustainable environmental management, with the best air and water quality, and the best fisheries management, bar none.

FII communicates B.C.'s record on sustainable forest practices to markets around the world and strengthens relations with key stakeholders in these markets. This program uses science-based information to show that the Province has world leading practices in terms of retaining biodiversity in forests, harvesting, and reforestation. To maintain B.C.'s leadership in environmental management, FII coordinates the forest industry's response on emerging issues, such as forest certification and green building standards.

To create more jobs per capita than anywhere else in Canada.

Maintaining strong and growing international markets for B.C. forest products is important to job growth because more than 80% of B.C. forest products are sold to foreign customers. FII is entirely devoted to promoting B.C. forest products around the world. Through partnerships with the federal Canada Wood Export Program and industry trade associations, FII invests in promotional campaigns in key overseas markets. Potential barriers to trade, such as foreign building codes that are not compatible with B.C. lumber grading or species, are dealt with through direct contact with foreign government officials. And FII invests in product development to speed the introduction of new products and advanced wood technology to the marketplace.

Business priorities

Each year FII updates business priorities to reflect the issues and opportunities facing the forest economy. These priorities are used to guide investments and other business activities. Priorities align with performance measures, but because the measures are set several years into the future, the list of measures may not explicitly reference every priority.

In 2006/07, FII's business priorities were a combination of mandated activities and strategies targeted to issues and opportunities facing the industry.

Mountain Pine Beetle epidemic

B.C. is responding to an unprecedented epidemic of the Mountain Pine Beetle with a comprehensive and integrated strategy involving several ministries and Crown agencies. In the fall of 2005 FII created a program focused specifically on MPB-affected timber. 2006/07 was the first full year for the program, when activities focused on:

- determining processing and product performance properties of dead pine trees for key wood and pulp and paper products;
- eliminating any trade barriers to markets related to pine products;
- identifying new market opportunities for existing products;
- identifying new product opportunities; and,
- extending information to complement production decisions and to maintain markets for manufactured products from beetle-attacked pine.

Coastal industry

British Columbia's coastal forest industry has experienced a decade or more of changing market preferences, evolving market demand, a shift in harvesting from old growth to second-growth areas, and an evolution of manufacturing technologies and sawmilling operations. In 2006/07 FII supported preliminary work by the industry to re-position its tree species, products and markets for wood products.

Asia Pacific strategy

British Columbia has embarked on a strategic expansion of Asia Pacific markets and the preparation of market development strategies across a wide range of economic sectors. Led by the Ministry of Economic Development, the Asia Pacific Trade Council and a host of committees and volunteers, important steps are being taken to advance British Columbia's objectives in the Asia Pacific region in concert with various federal government departments and recent "gateway" strategies. In 2006/07 FII placed a high priority on investments that are consistent with and support B.C.'s Asia Pacific strategy and continued its extensive activities in China. FII played a leading role in organizing a trade mission by Premier Gordon Campbell to Japan and China in November, 2006.

2010 Winter Olympics and the Vancouver Convention Centre

The 2010 Olympics and Paralympics Winter Games will focus the world's attention on British Columbia. On behalf of the province, FII is working to ensure that many of the games venues showcase a wide range of forest products in structural and finishing applications. Similarly, FII is working with Vancouver Convention Centre Expansion Ltd. to incorporate B.C. wood products throughout the expanded facility.

Business priorities

In 2006/07 this led to the announcement by Forests and Range Minister Rich Coleman that the Richmond Speed Skating Oval will feature an all-wood roof made from more than one million board feet of spruce-pine-fir lumber, and 19,000 sheets of plywood. Spanning a total of 6.5 acres, this unique structure will incorporate a large component of products made from timber affected by the Mountain Pine Beetle epidemic, demonstrating that the industry is maintaining its historical standards for high-quality wood products.

Low-cost housing

The December 2004 tsunami that struck Southeast Asia and the earthquake that devastated northern Pakistan in the fall of 2005 triggered the B.C. forest industry's interest in providing wood products for broad reconstruction. FII led with testing the economics and logistics of providing wood-frame technology solutions to Indonesia, which resulted in two firms in B.C. securing contracts in 2006 to provide a total of about 600 low-cost houses to the region. FII and interested industry participants are using this as a point of departure in pursuing low-cost housing solutions in other developing countries.

Report on Performance

Risk management

In 2006/07 FII drafted a risk management framework to identify potential risks to discharging its mandate, and strategies for mitigating those risks. The framework is based on the Province's enterprise-wide risk management strategy adapted to FII's structure and business activities. Risk factors were identified for corporate, market development, market communication, China operations, and financial and IT services. It is expected that the framework will be approved by the board of directors and implemented in 2007/08. In the interim, FII management is using the framework as a guideline for managing risk factors.

External business environment: The international demand for B.C.'s forest products is influenced by macroeconomic factors and demand in various markets. The strength of the Canadian dollar against the U.S. dollar and the Japanese Yen – an indicator of B.C. competitiveness - and the demand for new housing in the U.S. and Japan – an indicator of demand for wood products - are among the most important influences on exports.

All of these factors are well beyond FII's control. However, through a forward-looking planning process, and the annual updating of investment strategies and business priorities, FII aligns its activities to market conditions. Through market diversification and product development activities FII helps the forest economy reduce the risks related to specific market and product dependencies.

Partnerships: Success in delivering FII programs depends on the willingness of other parties to propose activities that benefit the forest economy, and deliver projects that achieve the intended objectives. On the first point, FII reduces the risk of inappropriate or misguided proposals by seeking industry input during the annual cycle of developing investment and business priorities. On the second point FII requires frequent and regular program updates through a new, online compliance system introduced in 2005/06. Where projects are not on target, FII works with its partners to resolve any issues or shortcomings.

Goals, objectives, strategies and targets

FII is a unique organization, at least in Canada. No other government has established an agency with the same mandate and resources. Consequently, FII is uniquely placed with respect to establishing goals and objectives, and with respect to how it crafts its strategies and targets.

With the refinement of these goals, performance measures were updated to provide a more concise, higher level statement of expectations and to make activities more easily understood by non-industry readers.

Report on Performance

Goals, objectives and strategies

Goal 1	Goal 2	Goal 3	Goal 4
Diversified market opportunities for B.C. forest products	B.C. positioned as a global leader in sustainable forest management	Collaborative delivery of market-development activities that optimize provincial, federal, and private-sector contributions	An effective and well-managed organization
Objectives			
Free flow to market for B.C. forest products Favourable market awareness of B.C. forest products Develop new products and technologies	Market awareness of B.C. forest practices B.C. positioned as global leader in environmental forest practices	Collaborative relationships with key partners Industry input on strategy and business practices Improve cost efficiency and program delivery	Efficient, transparent and results-focused organization Fully competent and dedicated staff
Strategies			
Develop market strategies for province's Asia Pacific Strategy Remove technical and non-tariff barriers that limit market access Identify and test new wood products and market interest Increase market awareness, acceptance and demand Promote Canada Wood brand Introduce new three-year China workplan involving FII Shanghai Fund R&D in the pulp and paper and non-timber forest products sectors	Gather market intelligence; monitor news media Provide customers with credible facts on B.C. forest practices Build support for B.C. as world leader in sustainable forest management Position B.C. Market Outreach Network as a credible source on forest practices in B.C. Defend B.C. forest products when unfairly targeted	Meet monthly from FII's industry Strategy Committee and semi-annually with stakeholders Cost share projects with industry associations, research institutes, universities and the federal government Harmonize federal and provincial administrative processes Identify and develop options to increase partner support for international marketing Survey stakeholder views on partnered activities	Continue roll-out of a rigorous program of monitoring, auditing and evaluating partner-delivered projects, according to explicit risk assessments Ensure regular and accurate reporting on investments and compliance with government and contractual requirements Ensure staff are afforded periodic opportunities to formally and confidentially comment on their working environment

Goal 1: Diversified market opportunities for B.C. forest products

The success of B.C.'s forest industry is largely dependent on being well informed, diverse and responsive to customer preferences and market opportunities. The global marketplace for forest products is becoming very competitive. Prices for B.C.'s prime product - structural-grade lumber - plummeted in the United States in 2006. Moreover, markets are seeing an influx of lower priced and lower quality products as well as wood believed to be illegally harvested in some countries.

FII is working with its partners in a strategic and long-term way to ensure that B.C. producers:

- are positioned to take advantage of opportunities as they arise;
- can respond to the challenges and changes in traditional markets;
- offer the products that customers want; and,
- are a reliable source of the world's finest wood products.

FII and its partners are also working to inform marketing decisions with thorough research and market intelligence. With such information, the industry can make strategic decisions on where to target their products, where to explore new partnerships and where the most effective business opportunities and future sales lie.

Although the United States will always remain B.C.'s primary market, diversifying markets is important to the long-term success and prosperity of the industry. FII assesses progress in this regard by tracking the B.C. industry's volume and value of sales, as well as market share, in the United States, Japan, the European Union, China and Korea.

Report on Performance

Performance measure:

Supporting the government's Asia Pacific Strategy, developing and implementing the forest sector strategies for each market.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Implement new three-year China work plan.	✓ Achieved.	Review and update existing Japan strategy.	Develop India strategy.
Update and expand Korea strategy.	✓ Research completed, plan being updated in 2007/08.	Effective implementation of existing strategies.	Effective implementation of existing strategies.
Develop United States non-residential strategy.	✓ Achieved.		
Effective implementation of existing strategies.	✓ Achieved.		

2006/07 Results

- FII and industry and federal partners completed a 3-year work plan for China.
- FII completed two major research projects in Korea, which will form a basis for updating FII's Korea strategy early in 2007-08.
- FII undertook in-depth market research studies in China, Malaysia, Viet Nam, Pakistan, and Indonesia.
- Forest industry partners completed a non-residential strategy for the United States.
- FII linked its annual investments to FII's market development strategies and the FII 06/07 Investment Strategy. Market development activities were successfully completed in major export markets around the world.

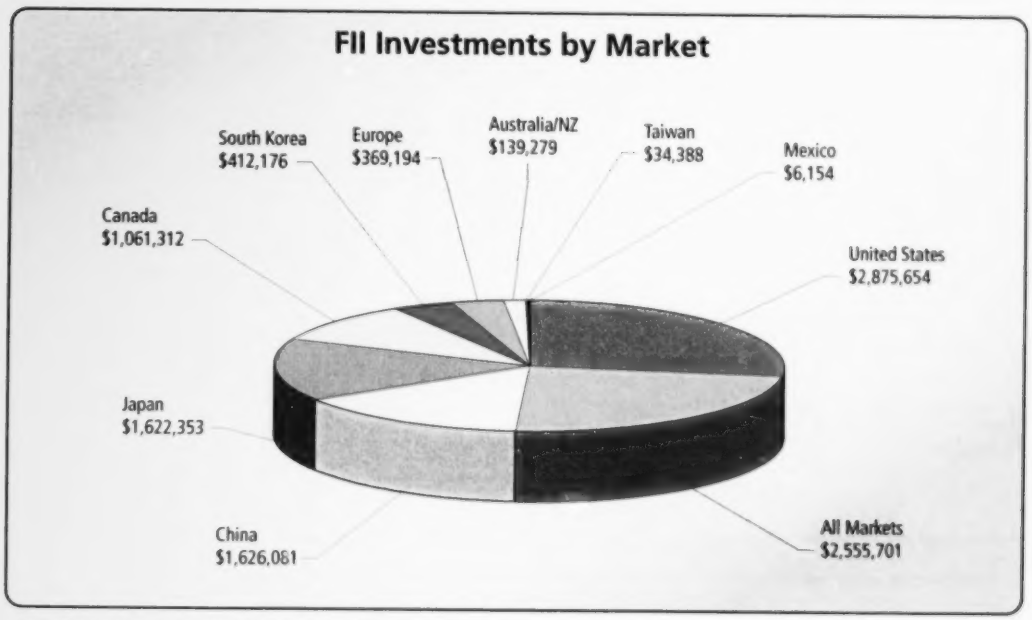
Highlights

FII supported the development of the wood product sections of B.C.'s Asia Pacific Strategies for Korea, India, Japan and China. FII is supporting the implementation of the wood product objectives of these strategies, and has ensured that these activities are consistent with and compliment FII's own market development strategies and investments. In partnership with the Federal Canada Wood Export Program, the B.C. forest industry and the Canada Wood Group, FII has been directly involved in the implementation of a coordinated three year work plan for market development activities in China that focuses on:

- demonstration activities promoting the commercialization of the wood truss roof renovation system, developing and promoting hybrid building solutions;
- landscaping demonstration projects promoting B.C. outdoor wood products;
- market research projects targeting renovation activities in second-tier cities and taking an in-depth look at opportunities for wood in low-rise and low-density housing construction; and
- technical research with the Chinese Academy of Forestry regarding new and existing products.
- FII also invested $1.6 million in 44 joint, industry led market development projects in China.

The non-residential strategy for the United States is designed to capitalize on the large potential for using wood products in non-residential structures. Early implementation began in the fourth quarter, with FII and industry funding supporting pre-launch activities in California (the first pilot market). This initiative will build on the successful B.C. WoodWorks! program, that promotes increased wood usage in commercial, industrial, recreational, and educational facilities across British Columbia.

FII funded a total of 179 international marketing, product development, market access, domestic development and Mountain Pine Beetle projects in 2006/07, with an FII investment of $10.7 million – leveraging a total project value of $22.9 million[1]. These investments focused on pursing opportunities for wood product exports in the following key export markets.



Based on FII funding provided to other organizations

1 These figures include FII's Mountain Pine Beetle Program

Report on Performance

Performance measure:

Achieving pre-identified milestones needed to enable access to new markets, such as new building and fire codes.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Market access checklist implemented to quantify and track achievement of milestones in China and Korea.	✓ Achieved with priorities identified and matching investments.	Demonstrated completion of milestone objectives in market access checklist.	Demonstrated completion of milestone objectives in market access checklist.
Complementary roles and responsibilities clearly accepted by stakeholders.	✓ Achieved with initiatives led by industry and partners.		

2006/07 Results

- Market Access priorities were identified for China and Korea, and FII investments were made to pursue these objectives.
- Market Access initiatives were led by a consortium of forest industry associations through the Canada Wood Group, financially supported by FII, the Government of Canada, and the B.C. forest industry.

Highlights

Market access objectives in Korea are focused on addressing sound, fire and seismic concerns in multi-storey, multi-family structures. A Canada Wood Group office was opened in Seoul in August 2006, and a technical director responsible for market access activities was hired. Activities focused on building a better understanding of these issues, developing action plans to address them, and completing initial project activities in partnership with Korean officials. For example, a group of Korean scientists and fire officials participated in Canada Wood initiated shake-table seismic testing in China. Korean officials are now drafting (in consultation with Canada Wood) new seismic building code provisions for introduction in Korea.

Market access objectives in China focused heavily on:

- the development of a local Shanghai building code,
- addressing issues and obtaining relaxation in Chinese fire codes for wood frame construction; and,
- updating seismic provisions in China's building code, recognizing the strong performance of Canadian wood frame construction technology.

Milestones in each of these areas were achieved, with progress continuing on all fronts. A first draft of the local Shanghai building code was completed, with adoption anticipated in 2007/08. A four-country Chinese fire code initiative and project team has been struck, with collaborative efforts underway to assist China in addressing its key fire code concerns, with specific focus on wooden roof trusses (new and existing buildings), non-load bearing wood infill in steel/masonry buildings, and wood usage in hybrid construction (load bearing applications

in conjunction with concrete and steel up to 6 storeys). In partnership with Chinese code officials and Tongji University, shake-table seismic testing was completed to demonstrate the performance of wood building systems. This information is being used by China as they draft new (more favourable) code provisions for the seismic performance for wood construction.

Report on Performance

Performance measure:

Implementing demonstration projects to showcase B.C. wood products and wood-construction technology.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Two villas completed in Shanghai.	✓ Achieved	One to two demonstration projects completed in China.	One to two demonstration projects completed in China.
One renovation project in Shanghai.	✓ Achieved, with 2 projects completed	Demonstration planning done in Korea.	One demonstration project complete in Korea.
One demonstration project in Beijing.	✓ Achieved with 1 project completed in Qingdao		
China renovation market strategy in place.	✓ Achieved		

2006/07 Results

- Fire approval received for Dream Home Canada Centre and villas
- Dream Home Canada villas completed Dec, 06.
- Two roof renovation projects completed in Shanghai, (Xu Hui & Tongji University) and one cooperative roof renovation project with QWEB completed in Qingdao.
- Cooperative project with National Fire Institute on the design of an "Added Story + Roof" renovation model for Beijing project completed in Mar, 06.
- China renovation market strategy in place.
- MOU signed with Guangzhou Garden Bureau to cooperatively introduce & promote B.C.'s outdoor wood products & technology for their use in landscaping. Design work completed on first joint demo project in Guangzhou's Zhujiang Park.

Highlights

The DHC Demonstration Centre in Shanghai received extensive recognition in 2006/07 as an attractive and viable building solution for China. Two developers built exact or similar replicas in Shanghai and Changsha, Hunan Province. Recently obtained fire code approvals were a major step towards further promotion of commercial wood structures and the use of glulam.

DHC Villas were completed during the year and are now being used as demonstration facilities and to run tests proving energy efficiency benefits and local climate performance.

In Shanghai's Xu Hui District Roof Renovation Project led to the system's acceptance by Shanghai authorities, and Xu Hui District's general contractor signed a memorandum of cooperation committing to using the Canadian wood truss roofing system in all future projects.

A cooperative roof renovation project in conjunction with the Quebec Wood Export Bureau (QWEB) and a commercial developer in Qingdao government was completed successfully. The Qingdao coastal region holds significant promise for use of wood in low-density and low-rise housing.

Renovation of a building at Tongji University Design Institute started in mid-March 2007. The project demonstrates a China-specific design option that will be widely applicable in many markets around the country. Tongji's status as a top Architectural & Engineering School lends credibility to the system and its use.

A joint project with the Tianjin Fire Research Institute has produced a design for adding an extra story of living space and sloped roof in wood, which addresses local fire code requirements and after passing technical reviews, will form FII Shanghai's first hybrid renovation demo project in 07/08.

Research conducted on China's current and future market potential for low-rise housing indicates significant opportunity in this segment, (expected to peak at 4.9 million home units in 2010 and level off at 3.3 to 3.6 million home units by 2020) which is a target for hybrid wood frame construction systems.

FII Shanghia's MOU with Guangzhou Garden Bureau will see the two organizations work cooperatively on the introduction and promotion of pressure treated wood products from coastal and interior B.C. and the technology for using them in landscaping applications in South China. Designs for the first cooperative demonstration project inside Guangzhou's Zhujiang Park were completed 2006/07 and construction is scheduled to begin in July 2007.

Report on Performance

Performance measure:

Implementing a program to promote wood use in non-residential structures.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Develop US non-residential strategy.	✓ Achieved	Implement US non-residential program.	Evaluate US non-residential program.
Provide technical resources to promote wood use/showcase wood in B.C.'s Olympic facilities.	✓ Achieved	Designs for Olympic venues to incorporate B.C. wood products.	B.C. wood products showcased in Olympic venues.

2006/07 Results

- Industry strategy developed; implementation started in California.
- Coordinated by the Canadian Wood Council, FII funded technical resources to leverage increased wood usage in 2010 Olympic venues.

Highlights

Technical resources have supported Olympic officials and Olympic venue architects/designers, engineers, and project managers to explore wood usage in 2010 Olympic venues. Efforts to date have resulted in increased specification of wood for appearance grade finishing applications in the expanded Vancouver Trade and Convention Centre, and the specification of a wood roofing solution for the Richmond Speed Skating Oval. The innovative new technology and design selected for the Richmond Oval roof (the first of its kind) will have long span glulam curved beams, supporting waved wooden roof panels. The Oval roof will use over 1 million board feet of B.C. dimension lumber, and 19,000 sheets of B.C. structural plywood.

Performance measure:

Implementing the new Mountain Pine Beetle Program.

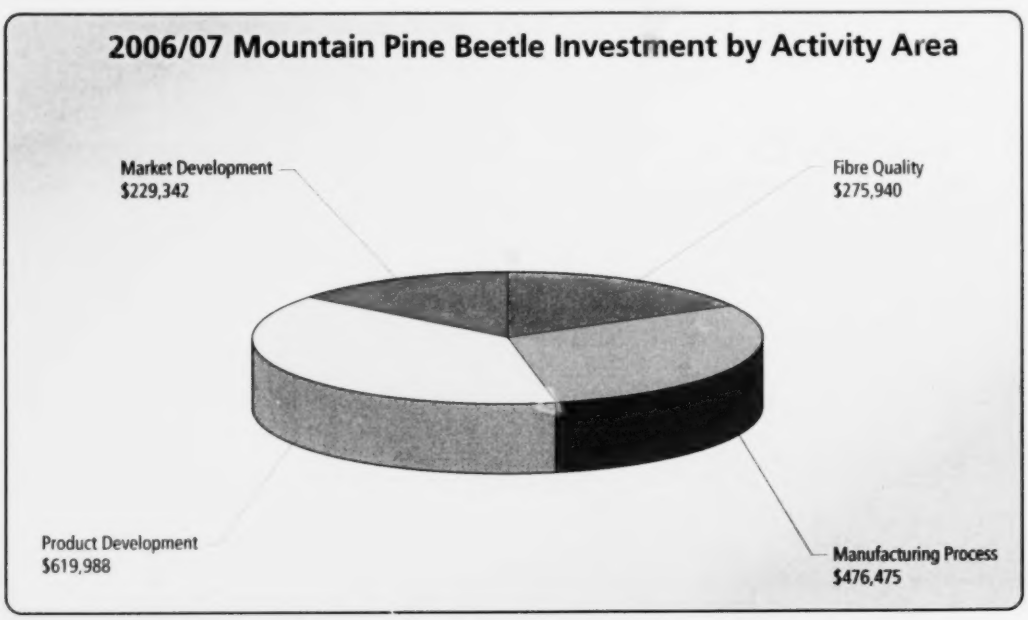
2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Fund projects proposed by industry associations, Forintek and UB.C. Self-initiate work to fill gaps identified by involved stakeholders.	✓ Achieved ✓ Achieved	Continued collaborative program of investments. Effective communication of the results of investments.	Independent evaluation of the effectiveness of the program.

2006/07 Results

- FII funded 20 industry led projects for a total of $1.6 million.
- FII pursued technical/manufacturing, and market development projects to address issues / pursue opportunities for MPB fibre.

Highlights

FII's Mountain Pine Beetle Program delivers the Mountain Pine Beetle (MPB) Wood Products Research Program as a component of the Province of B.C.s Mountain Pine Beetle Action Plan. FII invested in industry-led projects focused on four key areas of priority activity as illustrated in the following chart.



Report on Performance

In addition to these projects, FII initiated direct-delivered projects to address key industry needs and explore potential opportunities. Examples include:

- High-speed sawmill grade outturn and recovery study - A trial comparing old grey-stage MPB fibre relative to a green Lodgepole Pine fibre control sample was conducted in November 2006 with the results published in April 2007. This represented the first statistically sound quantification of lumber yields from this type of fibre to assist in the assessment of shelf-life for MPB logs.
- Alternative product manufacturing (from low grade grey-stage MPB) - A 2006/07 study of the economics for selling low grade MPB four-sided rectangular cants to China for remanufacturing was completed.
- Collaboration with the Chinese Academy of Forestry in Beijing – Work is on-going to assess the durability characteristics of glue-laminated timbers constructed with pressure treated laminating stock for potential use in outdoor applications in the developing Chinese landscaping industry.

Goal 2: B.C. positioned as a global leader in sustainable forest management

Forest product customers around the world are increasingly looking for assurance from their suppliers that the products they purchase come from legal and sustainably managed forests. As a result, B.C. must be well positioned as a global leader in sustaining environmental values and forest resources.

The province's commitment to sustainable forest management represents a significant advantage as customers are increasingly factoring environmental practices into purchasing decisions. FII is committed to providing a broad audience, especially forest product customers in the U.S., China, Japan and Europe, with accurate and factual information about forest management in B.C. to support their purchasing decisions.

Surveying customers, influencers and decision makers is basic to understanding customers' preferences and measuring the effectiveness of FII's activities. FII conducts customer surveys, in partnership with other organizations, to determine trends in the marketplace, customer perspectives and the effectiveness of market communications materials. The results of these surveys guide activities led by BCMON staff. In addition, FII regularly surveys the forest sector to determine the usefulness of the Network's activities and recommendations for action.

Report on Performance

Performance measure:

Extent to which B.C. is seen as a reliable supplier of forest products from sustainably managed forests.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Survey Customers	✓ Achieved	Implement recommendations from 2005/06 survey of international customers.	Survey Customers

2006/07 Results

- 93% of customers feel that choosing products from B.C. (Canada) is a good choice for the environment.

(This performance measure is based on biennial surveys of approximately 140 customers, conducted by an independent research firm)

Performance measure:

Effectiveness of the BCMON program at communicating and advocating for the B.C. forest sector.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Implement recommendations from 2005/06 survey of stakeholders.	✓ Achieved	Survey stakeholders.	Implement recommendations from 2007/08 survey.

2006/07 Results

- Implemented recommendations from 2005/06 survey of stakeholders, which included establishing a market acceptance advisory group.

(Data for the above performance measure is collected through biennial surveys of approx. 50 key stakeholders. Research is conducted by an independent research firm)

Goal 3: Collaborative delivery of market-development activities that optimize provincial, federal and private-sector contributions

Collaboration and a culture of innovation are essential to the long-term competitiveness of B.C.'s forest sector. FII works in partnership with other government agencies, academic institutions and the forest sector to improve the level of co-ordination with key partners, establishing greater cohesion within the forest sector and increasing the level of partner participation in FII initiatives.

Maintaining the level of collaboration and partnered investments is critical to international market research and implementation strategies.

FII's objectives routinely including maintaining or increasing the level of partner support for FII-funded projects and initiatives.

Report on Performance

Performance measure:

The demonstrated willingness of key partners to commit financial resources to joint initiatives.

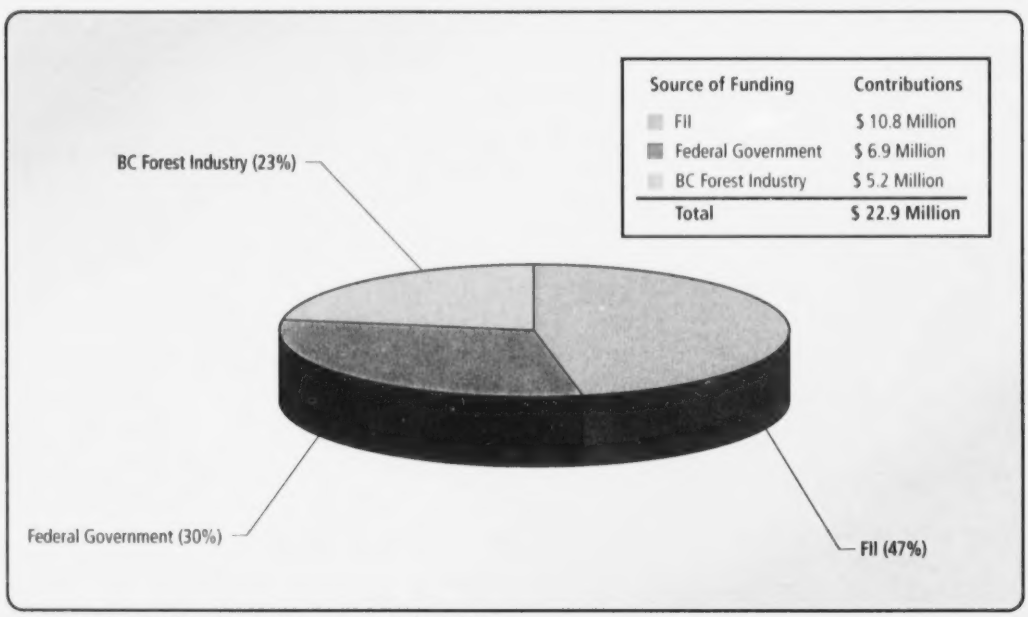
2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
In-market development activities with indicator of 50% contribution from industry and the federal government.	✓ Achieved	Continued partner investments in joint initiatives.	Continued partner investments in joint initiatives.

2006/07 Results

- Contributions from other funding partners was 53%, exceeding FII's leveraging target.

Highlights

FII continues to place a high priority on collaborative project delivery, with leveraged contributions from both the federal government and the B.C. forest industry. FII's target of achieving at least 50% cost sharing from project partners was exceeded. This demonstrates a strong support for project activities and market development priorities from both the private sector and other levels of government.



Based on activities delivered by organizations partially funded by FII

Performance measure:

Level of qualitative support for FII's collaborative efforts with partners.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Implement recommendations from 05/06 partner survey.	✓ Achieved	Survey partners.	Implement recommendations from 07/08 partner survey.

2006/07 Results

- Implemented recommendations from 05/06 partner survey.

Highlights

In early 2006 Decima Research reported its findings after surveying key stakeholders, partners and clients regarding the administration of FII's funding programs, the importance of specific activities, such as tradeshows, and support for various programs and services. Approximately 50 respondents had been asked to participate in the survey, and the findings indicated:

- overall ratings were very good from most participants;
- programs were described as credible, well designed and well managed; and
- staff were respected and collaborative.

The survey highlighted that improvements could be made in program administration, industry communication, and strengthening industry relations. In response FII has:

- strengthened its seven-member industry advisory committee to provide guidance on strategy, programming and investment priorities;
- established a market acceptance advisory group to align the BCMON program with industry priorities;
- developed a corporate communication strategy that is updated annually and focuses on industry and stakeholder communication;
- streamlined program administration through integration with federal administrative requirements and an online application and reporting system; and,
- started an ongoing process of more extensive industry outreach.

Report on Performance

Goal 4: An effective and well-managed organization

FII is a highly focused and dynamic organization that maintains flexibility to respond to emerging forest sector needs while maintaining low overhead and operating expenses.

FII is committed to the development and implementation of sound business practices incorporating sound financial controls, a performance management framework and a monitoring, audit and evaluation program built on a comprehensive risk-assessment strategy, all developed in accordance with government policies and guidelines.

FII's continuing objectives are to ensure that:

- the organization is efficient, transparent, and results-focused; and,
- staff are fully competent and dedicated to the company's success.

Performance measure

Funding recipient and FII staff compliance with comprehensive and robust policy and planning framework.

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Compliant internal and external financial audit reports.	✓ Achieved	Compliant internal and external financial audit reports.	Compliant internal and external financial audit reports.

2006/07 Results

In 2006/07 the following internal audits were carried out:

FII (Vancouver)

1. Computer Controls Audit
2. Recipient Project Evaluation and Selection Audit
3. Travel Expense Audit
4. Contracts audit

FII (Shanghai)

1. Government Compliance Audit
   a) Compliance with Chinese international cash receipt and payment rules and regulations
   b) Compliance with Chinese employment laws and regulations
   c) Compliance with Chinese corporate laws and regulations
   d) Compliance with Chinese taxation laws and regulations

Highlights

The internal audits identified recommendations to management which have been incorporated into the April 2007 updates to the policies and procedures manuals. External audits gave rise to clean audit opinions on both the FII (Shanghai) financial statements and the FII (Vancouver) financial statements.

Report on Performance

Performance measure:

Degree of staff commitment to the organization

2006/07 Forecast	2006/07 Actual	2007/08 Target	2008/09 Target
Implement recommendations from 2005/06 staff satisfaction survey.	✓ Achieved. The staff survey was completed in mid-2006.	Staff satisfaction survey.	Implement recommendations from staff satisfaction survey.
Minimal staff turnover.	Three staff left FII employment during the year.	Minimal staff turnover.	Minimal staff turnover.

2006/07 Results

The staff survey was completed in mid-2006. Based on the results, the following actions were implemented:

- development of an Executive Team Charter which later in the year evolved into an all encompassing staff team charter;
- implementation of regular executive meetings and all-staff meetings; and
- engagement of an expert consultant to provide team coaching to the FII Executive.

Highlights

In 2005/06 FII staff focused on establishing good relations with a wide variety of stakeholders in industry, governments, academia, and elsewhere. As mentioned above, the positive results were evident in a survey of those stakeholders done in early 2006. In 2006/07 it was time to assess opportunities for improvement in how FII staff work together. Through input to an independent consulting firm, employees confirmed that they understood and were committed to FII's objectives, had the skills and resources needed to deliver FII's programs, and believed they were making a positive difference for British Columbia. The also confirmed that they worked well together and enjoyed their work. However, they said they felt their work was not adequately recognized, and that communication by the executive and across program areas needed to be improved.

As summarized above, a number of actions were taken to significantly improve internal communications. The next internal staff opinion survey will undertaken in 2007/08.

Three staff left FII in 2006/07 for differing reasons that included:

- outgrowing a position in a situation where there was no room for advancement;
- opting for part-time employment elsewhere; and
- concluding that a newly created position was not a good fit after all.

Management discussion and analysis

In 2006/07 FII received its first Shareholder's Letter of Expectation (SLE) late in the year. Emanating from the Minister of Forests and Range, the SLE effectively replaced the Administration Agreement with the ministry, by which FII's mandate had been specified since the company was created. The Minister's direction gave FII somewhat greater latitude in developing and implementing its suite of market development and market communications programs. Coincidentally, the scope of FII's Agreement with the ministry was narrowed to cover the technicalities of funding from the Province, along with related fiscal controls. In particular, the SLE directed FII staff to participate in reviewing the composition of the board of directors and to review FII's cost-sharing policies related to funding the work of other organizations. Neither of those initiatives was begun by year-end.

FII began the year expecting to spend a total of $27.520 million. In fact, expenditures totalled $24.430 million. Payments flowing to other organizations based on FII's annual call for proposals totalled $10.8 million, or 44% of FII's total expenditures. Through those payments FII shouldered 47% of the total cost of the relevant cost-shared projects, the remainder being contributed by the federal government and the funding recipients themselves.

In promoting the use of B.C. wood products in 2010 Olympics-related venues, FII discharged its remaining obligation to the expanded Vancouver Convention Centre, and paid two-thirds of its $1.5 million commitment towards the unique all-wood roof for the Richmond speed skating oval. The balance is expected to be paid out when the roof is completed in mid-2007.

FII's funding recipients ultimately spent $1.07 million less than was committed to them at the beginning of the year. This continued a pattern of under-spending by trade associations, with the largest factor being a delayed start to a new program by the Wood Products Council to promote wood in non-residential structures in the United States. That program is now expected to get underway in 2007. In addition, several trade associations found that their internal human resource capacity, and their internal financial resources, were insufficient to support delivery of their full planned programs. To some extent, this problem should be alleviated in 2007/08 because FII and the Canada Wood Export Program have both increased the amount they will allow for administration of activities delivered by funding recipients.

In the Mountain Pine Beetle Program, FII spending was $395,000 (or 15%) less than planned, primarily because early experience indicated it would be of little value to proceed with certain product trials, and because a research project with the Chinese Academy of Forestry was delayed. In addition, the net cost of FII's first mill recovery study was reduced through sale of the lumber produced in the milling.

Spending in the market communications program was $1.216 million less than originally planned, primarily because FII funding was not requested or needed for four major initiatives that were anticipated at the beginning of the year, namely:

- promotion of the historic coastal land-use plan;
- a mapping project with the World Wide Fund for Nature;
- "green building" promotion in the United States; and,
- a global study of sustainable forest management.

Spending by FII Shanghai was down by $844,000 relative to the budget at the start of the year, largely because the company delayed the start-up of an office in Beijing, an anticipated "hybrid" demonstration project did not materialize, and consumer-level promotion was deferred.

Management discussion and analysis

Looking ahead

For 2007/08, FII anticipates substantially the same level of funding from the Province. FII will introduce a new Value Added Program with an initial funding level of $1 million per year, meaning that the budget for existing programming will be reduced. This will be accomplished by returning the market communications program to its historic budget level of about $2.8 million, and reducing direct-delivery activities in the market development program by about $1 million. The amount available to fund the work of other organizations will remain virtually unchanged.

Even though it is a very small organization, FII has implemented the full fiscal rigor that one expects in a government agency, and has implemented a full suite of internally and externally focused policies that have been fine-tuned through experience. FII Shanghai has similarly adopted business controls and policies that meet not only the norm within the B.C. government, but also the standards that are unique to China.

Since nearly half of FII's budget is annually committed to fund the work that other organizations propose, the company is always at risk that they will not deliver what they set out to do. That can be because circumstances in the market place change through the year, triggering a change in priorities. Or it can be because the other organizations finds they do not have the human or financial capacity to complete what they had planned. The capacity problem should be alleviated somewhat for 2007/08 because, as mentioned above, FII and the Canada Wood Export Program have agreed to pay a higher amount for administration of projects undertaken by the funding recipients.

Nevertheless, the fact of directing nearly half of its budget to other organizations always puts FII at risk of not achieving (albeit indirectly) the intended milestones or objectives. To minimize surprises in under-spending by other organizations, FII staff closely monitor their evolving work plans through the year, and frequently re-profile forecasts for the balance of the year.

In the broader context, like any organization FII faces a number of factors that put its success at risk. A concerted effort was made in 2006/07 to identify those risks, and measures that can be taken to mitigate them. A formal risk management plan was completed, and will serve as a touchstone to guide FII policies and procedures.

Perhaps the greatest risk for FII lies with the potential for staff turnover. With only 15 employees in British Columbia at year-end (one position being vacant), and five direct employees in Shanghai, FII is a very small organization, in which there are no redundancies. Every position is unique, so that if anyone leaves, there is virtually no internal capacity to fill the gap. Nor is there much opportunity for anyone to advance as their knowledge and skill sets improve. Finally, the fact that FII is funded only on a year-to-year basis can be unsettling to some employees, as it certainly is for some staff in organizations that rely heavily on FII funding.

The exposure to potential staff turnover is mitigated by proactively enabling and encouraging every employee to expand his or her scope, to inter-relate with a wide variety of stakeholders and learn from them, and to participate in activities that are not strictly within each position's formal scope. Nevertheless, the company is certain to suffer temporary set-backs with the occasional departure of staff who have out-grown their positions.

In summary, FII has matured significantly since it was created four years ago, with its priorities and strategies being developed through detailed consultation with federal officials and numerous senior industry representatives. In the spirit of openness, co-operation, and pursuing common goals, FII takes considerable pride in continuing to be a substantial catalyst for the work of other organizations, and in drawing upon its internal expertise to take the lead where that is appropriate.

Financial information

Capital expenditures for the year ending March 31, 2007 are shown in the following table.

FII Capital Expenditures
for the period ending March 31 2007

1	Furniture for Villa A and Villa B at Dream Home China	95,800
2	New Servers located at the Vancouver and Prince George Offices	123,600
3	New Japan Trade Show Booth	248,600
4	Miscellaneous Laptop computers, printers and other office furniture	61,000
	Total Capital Expenditures for the year	529,000

Capital spending decisions are driven by the following:

a. Project requirements
b. Tradeshow strategies
c. China demonstration projects
d. Office administration requirements

Management discussion and analysis

Year-over-year financial data are summarized in the following table:

Forestry Innovation Investment Ltd.
Statement of Funding and Expenditures By Program
Comparison to Budget and Prior Years

	Current Year 12 months ended March 31, 2007	Current Year Original Budget	Prior Year 12 months ended March 31, 2006	Prior Year 12 months ended March 31, 2005	Prior Year 12 months ended March 31, 2004
Funding					
Receipts - Province of BC	$ 24,430	$ 27,520	$ 22,050	$ 16,454	$ 26,531
Interest Income	-	-	-	-	-
Total Funding	$ 24,430	$ 27,520	$ 22,050	$ 16,454	$ 26,531
Expenditures					
International Marketing	15,354	16,769	14,575	10,686	10,912
China Market Development	2,157	3,033	1,550	1,287	930
Mountain Pine Beetle	2,211	2,606	1,439	-	-
BC Market Outreach Network	2,548	3,763	2,496	2,736	2,784
Corporate Support	1,236	1,349	1,394	1,288	1,272
Research	-	-	-	-	10,633
Amortization	924	-	652	547	-
Total Expenditures	$ 24,430	$ 27,520	$ 22,106	$ 16,544	$ 26,531
Excess of Funding Over Expenditures	$ -	$ -	$ (56)	$ (90)	$ -
Transfer from Contributed Surplus	-	-	56	90	-
Retained Earnings end of the year	$ -	$ -	$ -	$ -	$ -

Notes:

1) International Marketing: Recipients of project funding under this program area have under spent their budgeted funding by $1.07M. FII also deferred 2 third party program reviews of Japanese funded projects, as the funding recipients themselves had initiated reviews of their activities and market research into new priorities. FII will await completion of this work so it can be factored into any program reviews conducted. FII budgeted to complete a new Korea market development strategy, instead, FII completed planned market research in Korea during the fiscal year, and deferred costs of strategy update/development until 07/08 so that it could complete the strategy update/development based on the completed market research intelligence. FII budgeted to deliver training in Indonesia, to support commercial orders for disaster reconstruction housing. While some training was provided (linked to commercial orders), the full amount of training budgeted was not required and as such the budget was under spent.

2) Mountain Pine Beetle: Savings on the FII led mill trial were achieved, as commercial value was received for the lumber products produced (the mill partner sold the product for FII) which off set budgeted costs and resulted in an overall under spending. Funding budgeted for product trials were cancelled, as the economic analysis on the first product trial demonstrated that the economic potential was limited for the low cost cant remanufacturing applications first envisaged. Further trials were viewed to not have sufficient commercial potential to warrant proceeding. A major research project with the Chinese Academy of Forestry was delayed due to product sourcing challenges, as a result only 50% of the project (and cost) was incurred during the fiscal year, the balance will be completed and paid in 07/08.

3) BC Market Outreach Network: Cancellation of the Green Building Marketing Campaign and a reduced Tradeshow Strategy accounted for the underspending in this program area.

4) China Market Development: Reduced spending in the areas of Events and China Wide Marketing, and the fact that a budgeted Hybrid Renovation Project and the opening of the Beijing Office were delayed contributed to an $800K shortfall in spending to budget.

5) Amortization costs are offset by deferred income funded in previous years and as a result requires no budget allocation.

Statement of Management Responsibility

Forestry Innovation Investment Ltd.

Statement of Management Responsibility

Management, in accordance with Canadian generally accepted accounting principles, has prepared the financial statements of *Forestry Innovation Investment Ltd.* These statements present fairly the financial position of the Company as at March 31, 2007 and results of its operations and cash flows for the year ended March 31, 2007.

Management is responsible for the preparation, integrity and objectivity of the financial statements. Systems of internal control are developed and maintained by management to provide reasonable assurance that transactions are properly authorized, assets are safeguarded, and financial records are properly maintained to provide a reliable basis for preparation of the financial statements.

The Auditor General of British Columbia has performed an independent audit of the financial statements. The Report of the Auditor General outlines the scope of his work on the financial statements of *Forestry Innovation Investment Ltd.*

Ken Baker
Chief Executive Officer

Douglas Greig
Vice President, Finance and Administration

Vancouver, British Columbia
May 18, 2007

Report of the Auditor General of British Columbia

Report of the Office of the Auditor General of British Columbia

To the Members of the Board of Directors of Forestry Innovation Investment Ltd., and

To the Minister of Forests & Range, Province of British Columbia

I have audited the balance sheet of *Forestry Innovation Investment Ltd.* as at March 31, 2007 and the statements of operations and retained earnings, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of *Forestry Innovation Investment Ltd.* as at March 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Victoria, British Columbia
May 18, 2007

Errol S. Price, CA
Acting Auditor General

Forestry Innovation Investment Ltd.

Balance Sheet

(in 000's)

As at March 31	2007	2006
Assets		
Current assets		
Cash	**5,833**	1,456
Restricted cash held in trust (note 4)	**390**	-
Accounts receivable	**210**	221
Prepaid expenses	**461**	349
Program advances (note 5)	-	466
	6,894	2,492
Dream Home China (note 6)	**3,767**	4,072
Capital assets (Note 7)	**889**	942
	11,550	7,506
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 8)	**1,908**	1,281
Restricted funds held in trust (note 4)	**390**	-
Program payables (note 5)	**714**	667
Due to the Province of British Columbia (note 9)	**3,882**	614
	6,894	2,562
Capital lease	-	-
Deferred revenue (note 10)	**4,656**	4,944
	4,656	4,944
Shareholders's equity		
Share capital (note 11)	-	-
Contributed surplus (note 12)	-	-
Retained earnings	-	-
	-	-
	11,550	7,506

Commitments (note 13)

On behalf of the Board

Director

Director

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Forestry Innovation Investment Ltd.

Statement of Operations and Retained Earnings

(in 000's)

For the year ended March 31	2007	2006
Revenue		
Contribution from the Province of British Columbia	**24,430**	22,050
	24,430	22,050
Program costs		
Market Development Programs		
Market Development	**15,354**	14,575
China Market Development	**2,157**	1,550
Mountain Pine Beetle	**2,211**	1,439
Total Market Development Programs	**19,722**	17,564
BC Market Outreach Network	**2,548**	2,496
Corporate Support	**1,236**	1,394
Amortization	**924**	652
	24,430	22,106
Excess of revenue over expenditures	-	(56)
Transfer from Contributed Surplus (Note 12)	-	56
Retained earnings end of the year	-	-

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Financial Statements
Forestry Innovation Investment Ltd.

Forestry Innovation Investment Ltd.
Statement of Cash Flow
(in 000's)

For the year ended March 31	2007	2006
Cash flows used in operating activities:		
Excess of revenue over expenditures	-	-
Items not involving cash:		
Amortization of capital assets	**582**	652
Amortization of Dream Home China lease	**342**	-
	924	652
Changes in non-cash working capital	**4,307**	52
	5,231	704
Cash flows from investing activities:		
Dream Home China construction costs	**(37)**	(500)
Purchase of capital assets	**(529)**	(419)
	(566)	(919)
Cash flows from financing activities:		
Decrease in contributed surplus	-	(56)
Repayment of capital lease	-	(4)
Change in deferred revenue	**(288)**	268
	(288)	208
Increase in cash during the year	**4,377**	(7)
Cash beginning of year	**1,456**	1,463
Cash end of year	**5,833**	1,456

The accompanying notes and supplementary schedule are an integral part of these financial statements.

Financial Statements
Forestry Innovation Investment Ltd.

Forestry Innovation Investment Ltd.
Schedule of Expenditures by Business Segment

for the year ended March 31, 2007
(in 000's)

	Market Development	China Market Development	Mountain Pine Beetle	BC Market Outreach Network	Administration	2007 Total	2006 Total
Amortization	-	407	-	-	517	**924**	**652**
Auditing	87	16	-	-	54	**157**	**192**
Communications	177	-	-	12	-	**189**	**64**
Conferences and Trade Shows	1,734	-	-	447	-	**2,181**	**1,935**
Development Costs	53	-	-	-	-	**53**	**46**
Extraordinary Items	-	-	-	-	-	**-**	**-**
Grants	1,125	-	-	-	-	**1,125**	**4,185**
Marketing	-	234	-	-	-	**234**	**256**
Office	111	225	12	113	199	**660**	**635**
Other	-	-	-	-	-	**-**	**55**
Performance Management	103	-	18	-	-	**121**	**323**
Professional Services	236	80		259	223	**798**	**752**
Publishing	96	-	-	14	-	**110**	**346**
Strategy & Research Studies	642	-	1	472	-	**1,115**	**1,043**
Trade Missions	24	-	-	-	-	**24**	**322**
Travel and Business Costs	81	135	53	41	85	**395**	**202**
Wages and Benefits	341	375	113	304	675	**1,808**	**1,718**
Websites	-	-	-	15	-	**15**	**41**
Program Costs	10,544	1,092	2,014	871	-	**14,521**	**9,339**
Total	**15,354**	**2,564**	**2,211**	**2,548**	**1,753**	**24,430**	**22,106**

1) Nature of business

Forestry Innovation Investment Ltd. (the Company), was incorporated on March 31, 2003 under the laws of British Columbia. A board of directors, all appointed by the government of British Columbia governs the Company.

Market Development Program - uses project funding and partnerships with the Government of Canada, forest industry associations and research institutions, to:

- maintain and create opportunities for B.C. wood products in existing and emerging markets;
- ensure B.C. forest products have access to markets free from regulatory and other barriers;
- ensure buyers, consumers, designers, builders, developers and architects know about B.C. wood products and the many positive features they bring to wood-frame construction and interior finishing;
- support the development of innovative new forest products, including products using pine harvested from mountain pine beetle-attacked forests; and,
- provide markets and audiences with information on the properties and qualities of B.C.'s premier forest products as well as the B.C. companies that supply them.

BC Market Outreach Network Program (BCMON) - is an in-house program that provides international buyers and others with credible facts to document that BC Forest products come from well-managed forests and are environmentally superior to other competing products.

2) Significant accounting policies

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Consolidation

In 2004, the Company incorporated Fil Consulting (Shanghai) Co., Ltd , a wholly owned subsidiary registered under the laws of the People's Republic of China. The company was required so that business can be carried on in China. There are restrictions imposed on the distribution of earnings and other transactions with the foreign subsidiary and hence it has not been fully consolidated in these financial statements. However these financial statements reflect all the transactions of the subsidiary during the year.

b) Construction in Progress

Costs incurred in the development and construction of the Dream Home China project are deferred and will be amortized as lease payments over the term of the lease once construction has been completed. Pre-development costs incurred prior to the approval of the project were expensed.

Notes to the Financial Statements

March 31, 2006

(tabular amounts in $000s

c) Capital assets

Capital assets are recorded at cost and amortization is being calculated on the straight-line basis using the following rates:

Computer Equipment	3 years
Computer Software	2 years
Furniture and Equipment	5 years
Leasehold Improvements	Term of Lease
Trade Show Booths	3 years
Website development Costs	2 years

Assets costing less than $1,000 are expensed in the year of acquisition.

d) Revenue recognition

Contributions from the Province of British Columbia are for specific purposes and as such are deferred and recognized as revenue as the expenses are incurred.

e) Foreign currency translation

Any foreign currency transactions are translated into Canadian dollars at the rate of exchange in effect at the transaction date.

Any foreign currency denominated monetary assets and liabilities are stated using the prevailing rate of exchange at the balance sheet date.

f) Use of estimates

The preparation of financial statement in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts and disclosure of assets and liabilities at the date of the financial statements. Actual results could differ from these estimates.

g) Income Taxes

The Company is exempt from federal and provincial income taxes.

3) Financial instruments

At March 31, 2007, the company's financial instruments includes cash, accounts receivable, amount due to the Province of British Columbia, accounts payable and accrued liabilities and program payables. The fair values of the company's financial instruments approximate carrying amounts. It is management's opinion that the company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

4) Restricted cash held in trust

During the year the company's Market Communications Program entered into a joint venture agreement with members of the "Programme for the Endorsement of Forest Certification" (PEFC), an organization promoting an internationally credible framework for forest certification schemes and initiatives in countries around the world. In conjunction with this effort, the company and its subsidiary, FII Consulting (Shanghai) Co., Ltd agreed to financially administer the moneys contributed to the program by the joint venture partners.

5) Program advances and payables

The company advances funds to recipient organizations during the year, based on recipient funding contracts, to carry out program activities. Historically these unspent advances have been repaid back to FII prior to the end of the first quarter of the new fiscal year after fourth quarter reports have been submitted and final audits have been completed. As at March 31, 2007, there are no identifiable unspent program advances repayable by the recipients (2006 - $466,000).

Program payables at March 31, 2007 of $714,000 (2006 - $667,000) relate to the net amount payable at March 31, 2007 for programs being carried out in the subsidiary company FII Consulting (Shanghai) Co., Ltd.

6) Dream Home China

The Company provided the registered capital of $1,605,840 (US $1,200,000) to FII Consulting (Shanghai) Co., Ltd. through a grant agreement, whereby the funds are committed to the Dream Home China project and cannot otherwise be returned to the Company. The Company entered into an agreement with a development company in China with respect to the construction and lease back of a demonstration centre and wood frame construction villas. Construction of this project was completed December 31, 2006. All costs were capitalized at that time and are now being expensed over a three-year period starting January 1, 2007.

	2007	2006
Registered capital	**1,606**	1,606
Capitalized construction costs	**2,503**	2,466
Prepaid lease amortization	**(342)**	-
	3,767	4,072

7) Capital assets

	Cost	Accumulated Amortization	**2007 Net Book Value**	**2006 Net Book Value**
Computer Equipment	364	201	**163**	**62**
Computer Software	86	82	**4**	**9**
Furniture and Equipment	379	1165	**214**	**163**
Leasehold Improvements	77	77	**0**	**4**
Tradeshow Booths	1,504	1,005	**499**	**649**
Websites	389	380	**9**	**55**
	2,799	1,910	**889**	**942**

Cost includes the fair market value of certain assets transferred to the Company from the Province effective April 1, 2003, for one dollar. These assets are now fully depreciated.

8) Accounts payable and accrued liabilities

	2007	2006
Trade payables	433	346
Accrued liabilities	1,475	935
	1,908	1,281

9) Due to the Province of British Columbia

	2007	2006
Balance, beginning of the year	614	1,016
Funds received for current year operations	27,520	22,800
	28,134	23,816
Payments refunded back to the Province	(614)	(1,016)
Prior year program recoveries	205	-
Interest earned during the period	299	132
Program expenditures	(24,430)	(22,050)
Change in Dream Home China assets net of amortization	305	(500)
Change in capital assets net of amortization	53	232
Adjustment to deferred revenue	(70)	-
Due to the Province end of the year	3,882	614

Change in Dream Home China assets net of amortization represents construction costs during the year of $37,000 (2006 - $500,000) less amortization of prepaid lease of $342,000 (2006 - $0)

Change in capital assets net of amortization represents assets acquired during the year of $529,000 (2006 - $419,000) less amortization of $582,000 (2006 - $652,000)

Notes to the Financial Statements

March 31, 2006

(tabular amounts in $000s

10) Deferred revenue

The company defers contributions received from the Province of British Columbia used for the acquisition of Dream Home China and capital assets and recognises the revenue as these assets are amortized. The Deferred revenue account, therefore, will increase by the purchase of assets and decrease by the amortization of those assets.

	2007	2006
Balance, beginning of the year	**4,944**	**4,676**
(Decrease/Increase in Dream Home China assets net of amortization	**-**	**500**
(Decrease)/Increase in capital assets net of amortization	**(145)**	**(232)**
Adjustment	**70**	**-**
Balance, end of the year	**4,656**	**4,944**

11) Share capital

The Company has authorized capital of 100 common shares without par value of which 10 shares are issued and outstanding. The Minister of Forests holds the shares issued as the designated representative of Her Majesty the Queen in right of the Province of British Columbia.

12) Contributed Surplus

Contributed surplus represents the transfer of capital assets from the Province of British Columbia on the set up of the Company. This amount is being amortized each year equal to the amount of amortization taken on the capital assets.

	2007	2006
Balance, beginning of the year	-	**56**
Amortization during the year	-	**(56)**
Balance, end of the year	-	-

13) Commitments

The Company has lease commitments for the premises it occupies at 1130 West Pender and kiosk space at the Tsawwassen Ferry Terminal as follows:

	Lease Amount
March 2008	146
March 2009	151
March 2010	151
March 2011	151
March 2012	137
	736

The Company also has an obligation to pay $500,000 in fiscal 2007/2008 to the City of Richmond.

14) Related party transactions

The Company is related through common ownership to all Province of British Columbia ministries, agencies and crown corporations. Transactions with these entities, unless disclosed separately in these financial statements, are generally considered to be in the normal course of operations and are recorded at the exchange amount.

15) Comparative Figures

Certain figures for 2006 have been reclassified to make their presentation consistent with that adopted in 2007.

Glossary

BCMON The BC Market Outreach Network – an in-house FII program.

COFI The Council of Forest Industries – B.C. forest industry association representing B.C. forest companies.

CWEP Canada Wood Export Program – program operated by Natural Resources Canada, a Government of Canada department.

DHC Dream Home Canada – The name given to FII's Shanghai demonstration centre and the multi-year initiative to introduce wood-frame construction and increased B.C. forest products to China.

FII Forestry Innovation Investment Ltd.

IBS International Builders Show.

LEED Leadership in Energy and Environmental Design.

MDBA Market Development Business Area – A group of programs operated by FII.

MDF Medium density fibreboard – a panel product used extensively in construction.

OSB Oriented strand board – a panel product used extensively in construction.

Phytosanitary A system for preventing the spread of pests and disease through the import and export of plant products (including wood products) by treating and testing products to international standards.

ROI Return on investment – a comparison of the money earned (or lost) on an investment compared to the amount of money invested.

SPF Group A group of companies manufacturing spruce, pine and fir (SPF) wood products.

Contact us

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